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C O N F I D E N T I A L SECTION 01 OF 03 ASUNCION 001177

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SUBJECT: CONVERSATION WITH PRESIDENT DUARTE

Classified By: Ambassador John F. Keane for reasons 1.4 (b) and (d).

11. (C) Summary: On September 14, I called on President Nicanor Duarte Frutos (NDF) to urge his involvement in seeking enactment of an anti-money laundering bill, and he concurred. We also talked about a September 16-18 workshop to help the GOP develop national security strategies and a State-funded (ATA) anti-kidnapping course for 24 Paraguayans. NDF expressed concern about increased tensions with Paraguay's neighbors and the possibility of Brazilian economic sanctions. NDF often makes reckless, populist or nationalistic remarks, which are sometimes mimicked by his subordinates. His Vice President (VP), Luis Castiglioni, has made highly critical comments about Paraguay's neighbors and suggested the GOP could seek a bilateral Free Trade Agreement with the U.S., an idea which NDF has not endorsed and which has never been discussed with us. The VP is going to be reined in, NDF told me. We also briefly touched on other trade topics. End Summary.

Anti-Money Laundering Legislation (AML)

12. (C) In this one-on-one I told the President that I wanted to discuss anti-money laundering (AML) legislation, a forthcoming workshop sponsored by the Center for Hemispheric Defense Studies (CHDS) to help Paraguay develop a "national citizenship security and defense strategy", and recent controversies over bilateral trade policy. I also mentioned that we had just received notification that we could invite 24 Paraguayans to an anti-kidnapping course in the U.S.

13. (C) Duarte Frutos interrupted me before I got far explaining the need for his forceful and urgent personal involvement to secure Congressional enactment of stalled AML. He broke in to say that he considers AML a vital tool to curb impunity and corruption and had raised it with the Congressional leadership the day before. Welcoming that step, I urged him to raise the issue with key Chairmen of the Senate Finance and Legislation Committees, as well as with the Colorado Party Block leader.

CHDS Workshop: President Feigns Surprise, but Agrees
to Endorse

14. (C) Participation by key decision makers in the CHDS workshop was important, I stressed, if it was to be successful in developing useful options endorsed by the various government ministries for his consideration. I also noted that it is an opportunity to overcome coordination problems due to the tendency of the ministries toward "stovepiping."

15. (C) NDF replied that he was surprised the day before to hear about the workshop from the head of military forces, General Kanazawa. NDF said that the Vice President had not kept him informed about the workshop, which led to a fairly lengthy, albeit soft-spoken complaint that the Vice President has been doing and saying things lately that were not coordinated with him and have caused Paraguay problems with its neighbors Argentina and Brazil. (N.B. NDF was referring to VP Castiglioni's public criticism in the last few days of Brazilian and Argentine protectionism, the need for Paraguay to sign a free trade agreement with the U.S. (sic) and ill-considered remarks about the weaknesses, including moral and ethical, of the political leaders of Paraguay's neighbors. In fairness, NDF himself led the way in public bashing of Brazil and Argentina recently, so possibly the VP thought he had license. End Note.) NDF also claimed that the VP did not get his concurrence before making commitments or statements regarding the bilateral relationship with the US, including the CHDS seminar.

16. (C) His preoccupation showing, NDF noted that Brazil and Argentina are upset. NDF volunteered that he wants a good relationship with the U.S. (which the VP is fostering), but Argentina and Brazil are right next door, are the principal markets for Paraguayan products and, in the case of Brazil, have a stranglehold on Paraguayan finances. "If Brazil closes the border at Ciudad del Este or cuts off Itaipu

royalty payments to us, we are sunk!" While he wants to export much more to the U.S., he said he does not believe the FTAA is in Paraguay's interest, since the Paraguayan state depends heavily on revenues from customs duties. Moreover, it must stick with Mercosur because of its dependence on Brazil and Argentina, and Mercosur membership precludes a bilateral free trade agreement with the U.S. without a Mercosur waiver, which is not likely under current circumstances. He would like the U.S. to unilaterally reduce trade barriers to Paraguayan products, and mentioned special treatment of Bolivia as an example. He commented that Mercosur could negotiate an agreement as a block with the U.S., but I declined to pursue that topic since there were more urgent and less hypothetical issues to discuss during our limited time together just before his departure for New York. (Comment: No U.S. official has mentioned a bilateral free trade agreement; the only person to raise it is the Paraguayan VP. End Comment.)

Vice President Called to the Woodshed

17. (C) The Vice President has been called in, added NDF, to be told he must coordinate properly and he must be judicious in his public remarks. NDF said he wanted to know more about the CHDS workshop before he approved it, noting that it was sensitive. (Comment: He implied that he thinks Brazil and Argentina, not to mention his domestic opposition and the media, will be critical.) I explained to NDF that a number of senior Paraguayan officials, including the VP and the former Attorney General, believed the CHDS workshop would be valuable, and I explained why, noting the confusion, turf battles and indiscretions if not downright sabotage that raged during the Cecilia Cubas hostage taking investigation, and the implications of Paraguay not having clear and coordinated national security priorities and strategies. I described the purposes of the workshop.

18. (C) Not wanting to enter into a polemic, I did not remind NDF that I had discussed these issues with him last April, in the wake of the death of Cecilia Cubas and his trip to Colombia on national security issues, and suggested both the VP trip to Washington as well as the idea of a CHDS workshop, which he had approved. The VP had requested the workshop when he was in Washington and announced it publicly on several occasions, and had assured us it had been coordinated. I told NDF that I regretted that the VP had not consulted satisfactorily with him, but that the CHDS workshop facilitators were on the ground, the VP had already announced it, and it would be a setback and waste of resources not to proceed. Duarte concurred, and said he would ask the leaders of the respective GOP entities to attend. (Comment: The workshop was a success. Attendance included the VP, Ministers of Defense and Interior, Supreme Court Justices, Senators and Deputies, police and military leaders and many heads of GOP agencies, indicating that NDF followed up. Full report by septel.)

19. (C) The State Department had agreed to fund an anti-kidnapping course for 24 Paraguayans at the FBI training school in Virginia, I told him. NDF was pleased and agreed that this should be publicized here, although he did not want publicity for the CHDS workshop (presumably because of Brazilian and Argentine sensitivities). I reiterated that the VP had already commented on it publicly and the media would be hungry for information. In that case, NDF replied, it was ok to make a low key statement about it, but not "overplay" it, as the VP tends to do, out of "lack of experience and without awareness of the repercussions." He repeated that he is going to ask the VP to tone down his public remarks.

Trade Opportunities

110. (C) Returning to the trade theme NDF raised earlier in the conversation, I noted the openness of the U.S. market, an opportunity many other nations have seized and which Paraguay has not. I added that the lack of new bilateral or multilateral trade agreements with the U.S. were by no means impediments to expanding bilateral trade, and I gave him the example of Uruguay. We talked about how Uruguay achieved record beef exports to the U.S. and I noted that Paraguay could also sell beef to the U.S. if it fulfilled sanitary and phytosanitary requirements. It would take a couple of years or more of hard work by Paraguay, but the payoff could be very big, as it was with Uruguay. NDF was intrigued and said he would discuss with the Ministers of Agriculture, Industry and Commerce and Foreign Relations. We talked about other possibilities, such as exporting of value-added wood products, instead of Paraguay merely exporting (often through contraband) its hardwood logs for other countries to process into finished products for export (e.g. China.)

Comments:

11. (C) Duarte Frutos once again is looking to blame others for his problems; this time his target is the Vice President. It's worth recalling that NDF himself initiated sharp public criticism of Brazil and Argentina some weeks ago for their alleged stinginess and failure to live up to the spirit of Mercosur, a theme he has returned to often of late, and which is echoed by the private sector and the media. On another level, Brazilian and Argentine officials have outspokenly criticized various developments of the U.S./Paraguay bilateral relationship, particularly increased security cooperation, military exercise agreements, and statements by the VP that he wants a bilateral trade agreement with the U.S.

12. (C) Paraguayan politicians, the media and other opinion molders have expressed outrage at foreign, particularly Brazilian, "lectures" or threats, some even recalling Brazilian "imperialism" and occupation of Paraguay in the 1870's. The GOP has been very tough on Brazilian ranch owners in Paraguay for environmental depredations, and the illegal extraction of water from the Apa River, which the nations share. The Brazilian Ambassador was called to Brazil for consultations ten days ago, reportedly to discuss bilateral tensions. Many observers here expect Brazil to retaliate with disguised economic sanctions of some sort.

13. (C) The day of our meeting NDF attempted to draw the poison from rising frictions by noting that Brazilian Foreign Minister Amorim was correct in stating that Mercosur bans bilateral trade agreements by its members with third parties without a Mercosur waiver, although he would like to pursue export markets outside Mercosur and hoped that Mercosur would allow waivers. Indeed, there's no doubt that NDF's strategy is to extract concessions from its two large neighbors and he believes a closer relationship with the U.S. serves that purpose, with the caveat that he cannot overplay his hand.

14. (C) Duarte conveyed genuine disappointment that VP Castiglioni has not consulted adequately and been too outspoken. It would be a setback for us if the VP's influence diminishes. We may get a sense of whether NDF has clipped his wings in the coming days. It also remains to be seen if these developments will affect US/GOP security engagement.
KEANE